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EX PARTE OR LATE FILED

October 27, 1997

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

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OCT 27 1997

Re: *Ex Parte* – CC Docket Nos. 96-45 and 97-160  
Universal Service Cost Models

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Dear Mr. Caton:

In two recent *Ex Parte* filings<sup>1</sup>, WorldCom has addressed several issues related to universal service cost models that the Universal Service Branch staff is now evaluating. At the October 22<sup>nd</sup> cost model workshop, participants raised an issue fundamental to the construct of the various models that apparently has not yet been resolved – namely, whether and how should entities (households and businesses) in unserved areas be reflected in any universal service cost model. WorldCom recommends that: (1) unserved entities within established wire centers should be included in the demand module as unique customer locations; (2) the outside plant algorithms should provide facilities to serve these locations; and, (3) the total number of working lines should be increased as though unserved entities were, in fact, served. In support of these recommendations, WorldCom offers the following observations.

Congress expressed its intent that “consumers in all regions of the Nation ... should have access to telecommunications and information services ... that are reasonably comparable to those services provided in urban areas.”<sup>2</sup> The Commission has defined those services it considers to be part of universal service, but it was less than explicit on the quality of those services and seems not to have addressed the meaning of “access to” in the context of being physically attached to the public network. Through the debate over the cost models, the participants seem to have agreed that a maximum 18 kilofoot, unloaded copper loop will support both voice and data services of

<sup>1</sup> *Ex Parte* from David N. Porter, Vice President - WorldCom, to William F. Caton, Acting Secretary - FCC, (switching algorithms related to the proposed universal service cost models), September 23, 1997, and *Ex Parte* from David N. Porter, Vice President - WorldCom, to William F. Caton, Acting Secretary - FCC, (customer location and outside plant algorithms related to the proposed universal service cost models), October 16, 1997.

<sup>2</sup> Communications Act of 1934, as amended by The Telecommunications Act of 1996, § 254(b)(3).

the quality implied by the FCC's previous decisions. This same loop, augmented with appropriate electronics, also will support ISDN and higher speed digital services and thus will satisfy the Congressional mandate that access to advanced services be available. WorldCom is hopeful the Branch will adopt that standard in its next Public Notice on cost model issues.

There is less guidance concerning the meaning of "access to." In its periodic report, Telephone Subscribership in the United States, the FCC gathers statistics on households with a telephone "in unit" and households having a telephone "available."<sup>3</sup> The report records that telephone penetration varies by state reflecting, in part, the cost of service and demographics. WorldCom expects that penetration also varies between wire centers or census blocks within a state, but the report does not provide that level of detail. The Commission has not specified whether it considers "access to" to be defined by either the "in unit" or "available" statistic. Rather, the Commission might intend that telephone plant pass every household and business – that is, it must be available to be connected to every entity. But, Congress recognized that some communities may be unserved and may not request service.<sup>4</sup> So, "access to" can not necessarily mean that every entity must be passed. When requested by an unserved community, Congress directed the FCC (for interstate services) and the state commissions (for intrastate services) to determine which carrier(s) should provide service to the unserved area.<sup>5</sup> Presumably, the appropriate commission would decide whether to create a new exchange (wire center) or attach the unserved area to an adjacent wire center. In either event, given the concept of unserved areas, it would seem that the cost models need not design plant to serve all entities. Entities in unserved areas, including entities in unfranchised areas to whom service is extended on a special construction basis from a franchised area, should be excluded from the cost models. At the time that a commission franchises one or more carriers to serve a previously unserved area, the selected cost model should be rerun to produce a service cost for that area. The new wire center (or, if the Commission so decides, sub-wire center) cost could be compared to the established benchmark price to determine what, if any, high-cost subsidy should be paid.

WorldCom suggests a different solution for unserved entities located within existing wire center areas. The customer location algorithm should be modified to identify and locate all entities (whether served or unserved) in existing wire centers. The outside plant algorithm should design a plant layout sufficiently robust to provide service to all entities. And, the average cost per network element should be computed by including the cost to serve all entities in the numerator and the total number of entities (served plus unserved) in the denominator. Of course, facilities for special services should be included in the costs and line counts as appropriate. WorldCom

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<sup>3</sup> See, Telephone Subscribership in the United States, published by the Industry Analysis Division, Common Carrier Bureau, FCC, released October 22, 1997.

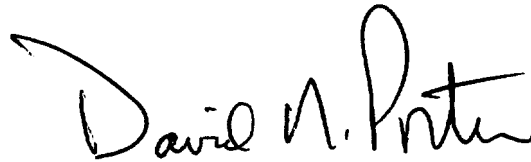
<sup>4</sup> Communications Act of 1934, as amended by The Telecommunications Act of 1996, § 214(e)(3).

<sup>5</sup> Id.

believes that neither the BCPM model nor the Hatfield model today show demand and costs in this manner. Based on discussion at the workshop, WorldCom believes that Hatfield ignores unserved entities, while BCPM builds plant to serve such entities, but excludes these entities in its working line count. Neither approach is correct. The first may understate costs, while the second overstates cost by understating the denominator. WorldCom believes its proposal is more consistent with the mandate of the Act.

WorldCom respectfully suggests the Commission should define how it wishes to incorporate unserved entities into whichever cost model it ultimately selects. WorldCom urges the Commission to adopt the specific method outlined above.

Thank you,

A handwritten signature in black ink, reading "David N. Porter". The signature is fluid and cursive, with a large initial "D" and "P".

David N. Porter  
Vice President – Government Affairs

cc: Chuck Keller, FCC